File FH 7322,
"Proposals"

10 March 1967

25X1 Subject: Contract ____(657)-12843 & -12846 (CPC & Follow-On EMR)
Spares Procurement Effort, Management Proposals for

Reference: (a) Contractor Correspondence of 9 January 1967
(b) Negotiation Conference of 3 March 1966

Dear Chuck:

The contents hereof are submitted in further substantiation of
the validity of this Contractor's Management Proposal(s) for
Spares Procurement effort under each of the subject contracts, said
Proposal(s) as submitted for Contracting Officer evaluation under the
referenced (a) correspondence.

To repeat that which has been previously stated this Contractor's
Management Proposal encompassed two (2) specific items, namely;

(i)   Electronic Data Processing (Computer) Time - said
cost encompassing the functions of spares cost,
planning and status, and

(ii)   Program Management Logistics Personnel - said
cost encompassing the services of Program Office
personnel required in direct support of spares
procurement.

This Contractor attests to the following re (i) and (ii) above:

(A)   The practice of isolating computer and program office
logistics group personnel for the purpose of establish-
ing realistic individual item cost(s) was developed
and implemented during the early stages of spares
procurement (approx. February 1965) and was under-
taken presumably on a mutually (Customer/Contractor)
agreement basis. All costs in these areas have to
date been collected independent of, and in no way
conflict with, the cost established for authorized
spares line item procurement.

(B)   All costs for authorized spares line item procurement
are compiled in accordance with the procedures and factors
derived and agreed upon during the reference (b) Negotia-
tion Conference conducted at this Contractor's facility.

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In connection with the foregoing statements attention is invited to the "Flip Chart" presentation given by this Contractor's personnel during the referenced (b) conference, said charts having been reproduced and attached hereto:

- Chart #1 delineates those elements which comprise two (2) major cost areas, those which CAN, and those which CANNOT, be estimated for each of the individual spares line items- It is to be noted that there is no reference to either Electronic Data Processing or Program Management costs. As stated previously, reference (A), Program Management and computer costs were properly excluded from these two (2) major cost areas. The Contractor's reason for exclusion was in keeping with the basic and presumably accepted premise that they rightfully constituted a third major cost area which would be proposed upon and recognized at a future date.

- Under Chart #1, Area II (Cost which cannot be estimated for each line item) engineering support and manufacturing planning and control are entered as elements a and b respectively. It is this Contractor's judgement that these are the only two (2) areas in which there might rest some doubt as to the application or inclusion of either spares management or EDP costs. It can be stated that these elements or costs, as defined in detail for cognizant audit personnel, do not encompass either spares management or EDP nor have either of the following costs been collected against these elements.

- Flip Chart V lists "Functions of Engineering Support". Although the Contractor's purpose in preparing this specific chart was to define the tasks performed under the engineering support element or cost, and not to attest to the validity of the subject proposal, Item No. 4 does bear out the fact that program management has been treated as an independent function apart from the engineering support element or cost.

As a final item it is to be noted that from the time this Contractor first prepared spares cost exhibits for audit review, estimated to be during the third quarter of 1965, until the present there has not been a single entry for either EDP or program management costs. It is the writer's contention that having prepared cost STATINTL exhibits for in-excess of [   ] of spare parts embracing EMR, AGE and MPC/CPC equipments, it is highly unlikely that this Contractor's costs for EDP and Program Management Spares Procurement totalling approximately $290,000 could have been excluded on other than a planned, and here again, presumed to be mutually agreeable basis.

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In conclusion it is trusted the contents hereof present an accurate and concise summation of the Contractor's position on the subject matter. It is trusted that together with the previously submitted, reference (a) correspondence, the Contracting Officer may be in a position to completely evaluate this Contractor's management proposal for spares procurement effort.

In the event further information is required please contact the
STATINTL undersigned or _____

Regards,   STATINTL

MOD:vg

STATINTL cc: SPO(Messrs. _____
                 Cognizant Audit Personnel

COST OF SPARES
TWO MAJOR AREAS

I   Those elements of cost that can be estimated for each line item of Spares List. These include:

    a. Shop Labor
    b. Assembly Labor
    c. Inspection Labor
    d. Materials
    e. Subcontracts
    f. Finishing
    g. Overtime Premium

II   Those elements of cost that cannot be estimated for each line item. These include:

    a. Engineering Support
    b. Manufacturing Planning & Control
    c. Inspection Services
    d. Bulk Type Materials
    e. Travel
    f. Packing and Shipping

Formula for Application of those elements of cost that cannot be estimated for each line item

Let X = Sum of costs that can be estimated for each line item
$$(X_1 + X_2 + \ldots + X_n)$$

n = number of spare line items (including 45 day lists, where applicable)

Y = Sum of costs that cannot be estimated on a line item basis

$$X + Y + \text{Fee}(X+Y) = Z \quad (\text{Total Sales Price of List})$$

$$\frac{Z}{X} = A \left(\text{Factor to be applied to each line item}\right)$$

$$A(X_1) = \text{Sales Price for } 1^{st} \text{ item on List}$$

$$A(X_2) = \quad '' \quad '' \quad '' \quad 2^{nd} \quad '' \quad '' \quad ''$$

$$A(X_n) = \quad '' \quad '' \quad '' \quad \text{Last} \quad '' \quad '' \quad ''$$

<u>and</u>

$$A(X_1) + A(X_2) + \ldots + A(X_n) = Z$$

EXAMPLE OF APPLICATION OF FORMULAS

SPARES LisT #1(E) - E System Modular Spares

SPARES LisT #40 - E System 45 day Spares

25X1A

$$X = $$
$$Y = $$
25X1A

$$X + Y + Fee(X + Y) = $$

25X1A

$$\frac{Z}{X} = \boxed{} = A = \boxed{}$$
25X1A
25X1A

Notes:
1. Major items such as SCL's are not factored
2. 45 day lists are factored as They are procured or manufactured simultaneously with Modular Lists.

SPARES List 1(E) & 40 Elements of Cost that were not estimated on a line item basis:

I. Engineering Support

    4,420 hours Administration
    2,400 hours Engineering
    ──────
    6.820 hours

Cost [   ] 25X1A

II Manufacturing Support

    7,900 hours MPC
      80 hours Receiving Inspection
    1,300 hours Inspection Services
     300 hours Packing & Shipping
    ──────
    9,580 hours

25X1A [   ] Bulk Materials

Cost [   ] 25X1A

Total Cost

FUNCTIONS OF ENGINEERING SUPPORT

1. Procurement of certain subassemblies from vendors. This effort includes the placing of the requisitions, monitoring of vendors and follow up.

2. Monitoring the effort being performed by Manufacturing including issuance of MI's to Shops and schedule follow up.

3. Solution of technical problems arising during the manufacturing and testing of spares.

4. Maintain liaison with Program Management to effect changes in Spares orders.

5. Cost and Schedule control of Spares Effort.

FUNCTIONS OF MANUFACTURING SUPPORT

1. MPC - Initiation and follow-up on all Purchase Requisitions and Shop Orders. Cost and Schedule Control for all Manufacturing effort maintained by This group.

2. Receiving Inspection. Incoming Inspection on all bulk Type items procured.

3. Inspection Services- Maintenance of vendor quality. Includes travel To various vendors for quality surveillance and inspection.

4. Packing & Shipping- Packing of all Spares items for shipping. Shipping Charges are not included.

5. Bulk Materials- Certain Types of materials cannot be quantified on individual Spares items and are quoted here. This includes items Such as; Epoxy, paint, INK, rivets, varnish, wire, ~~███████~~, sleeving, etc.

SPARES TIME PHASING CHART

	1964	1965	1966	REMARKS
	A M J J A S O N	D J F M A M J J A S O N	D J F M A M J J	
4928 PROPOSAL		←→		START 3-12-65 COMPL. 7-12-65
4928 BUY		PO'S PLACED ←————————→		START 4-5-65 COMPL. OPEN
4928 FAB.		←————→		START 6-14-65 COMPL. OPEN
D-3	←————————————→			COMPL. 7-12-65
D-4	←——————————————→			COMPL. 9-13-65
D-5	←————————————————→			COMPL. 10-4-65
D-6	←——————————————————→			COMPL. 2-1-66
D-7	←————————————————————→			
D-8	←——————————————————————→			

NOTE: % COMPL. AS OF 3-12-65

D-3	75%
D-4	65%
D-5	55%
D-6	45%
D-7	35%
D-8	25%

SURVEY OF PROJECT 1942
E SYSTEM MANUFACTURING

46 ITEMS SURVEYED

Total Quantity of these items Procured   8,083

Total Quantity of these items Required   6,816

Balance   1,187

Residual Remaining in stock   388

Parts Utilized   799

$$\frac{Parts\ Utilized}{Requirements} = \frac{799}{6816} = 11.7\%\ shrinkage\ used$$

SURVEY OF PROJECT 4928
SPARES LISTS 1 (E) & 40

66 ITEMS SURVEYED

Total Quantity of these items Procured   4,780

Total Quantity of these items Required   4,047
_____

Balance   733

Residual Stock Remaining   446
_____

Parts Utilized   287

$$\frac{\text{Parts Utilized}^{(287)}}{\text{Requirements}^{(4047)}} = 7.1\% \quad \text{Shrinkage used}$$

Note: Job in process. More useage anticipated as major assemblies (i.e. Receivers etc.) have not yet been tested.